

## NEWS RELEASE

FOR RELEASE: October 5, 2009

Lines Murphy & Company, P.L.C., of Osage today released an audit report on the City of Osage, Iowa.

The City's receipts totaled \$6,044,720 for the year ended June 30, 2009, a 36.66 percent decrease from 2008. The receipts included \$1,672,476 from intergovernmental, \$1,050,521 from charges for service, \$839,252 in property tax, \$797,000 from note proceeds, and \$1,685,471 from other general receipts.

Disbursements for the year totaled \$9,273,221 a 54.41 percent increase from the prior year, and included \$3,774,284 for capital projects, \$3,076,302 in operating expenses, \$1,733,455 for debt service, and \$689,180 from business type activities.

The Majority of the change is due to bonds issued in fiscal year 2008 and spent in fiscal year 2009.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at:

<http://auditor.iowa.gov/reports/reports.htm>.

**CITY OF OSAGE**

**INDEPENDENT AUDITORS' REPORTS**  
**PRIMARY GOVERNMENT FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2009**

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## City of Osage

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2009)</b>		
Steven Cooper	Mayor	Jan 2012
Rick Bodensteiner	Council Member	Jan 2010
Don Breon	Council Member	Jan 2010
Jim Werner	Council Member	Jan 2010
Brian Adams	Council Member	Jan 2012
Kurt Elliott	Council Member	Jan 2012
Allan Smalley	Council Member	Jan 2012
Cathy Penney	Clerk	Jan 2010
Bev Miller	Treasurer	Jan 2010
Richard Gross	Attorney	Jan 2010
Jerry Dunlay	Director of Public Works	Jan 2010
John Michels	Park Commissioner	Jan 2010
John LaCoste	Park Commissioner	Jan 2012
Don Fox	Park Commissioner	Jan 2014
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008
Mary Ann Carmody	Library Trustee	Jul 2011
Brian Jones	Library Trustee	Jul 2011
Kevin Kolbet	Library Trustee	Jul 2012
Herb Wright	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013
<b>(After January 2009)</b>		
Steven Cooper	Mayor	Jan 2012
Rick Bodensteiner	Council Member	Jan 2010
Ken Boehmer	Council Member	Jan 2010
Jim Werner	Council Member	Jan 2010
Brian Adams	Council Member	Jan 2012
Kurt Elliott	Council Member	Jan 2012
Allan Smalley	Council Member	Jan 2012
Cathy Penney	Clerk	Jan 2010
Bev Miller	Treasurer	Jan 2010
Richard Gross	Attorney	Jan 2010
Jerry Dunlay	Director of Public Works	Jan 2010
John Michels	Park Commissioner	Jan 2010
John LaCoste	Park Commissioner	Jan 2012
Don Fox	Park Commissioner	Jan 2014
Laurie Boehmer	Library Trustee	Jul 2014
Lynn Haakenson	Library Trustee	Jul 2014
Mary Ann Carmody	Library Trustee	Jul 2011
Brian Jones	Library Trustee	Jul 2011
Kevin Kolbet	Library Trustee	Jul 2012
Herb Wright	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013

Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the primary government financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Osage, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Osage as of June 30, 2009, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. In accordance with accounting principles generally accepted in the United States of America, Osage Municipal Utilities has issued separate financial statements for which other auditors have issued their report dated July 13, 2009.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2009 on our consideration of the City of Osage's internal control over financial reporting and

our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.



Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
July 31, 2009

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Osage provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 41.0%, or approximately \$2,957,000, from fiscal 2008 to fiscal 2009. Capital Grants increased approximately 984,000, property tax increased approximately \$88,000 and note proceeds decreased \$4,345,000.
- Disbursements of the City's governmental activities increased 132.0%, or approximately \$4,153,000, in fiscal 2009 from fiscal 2008. Community and economic development, debt service and capital projects disbursements increased approximately \$809,000, \$315,000 and \$3,205,000, respectively.
- The City's total cash basis net assets decreased 39%, or approximately \$3,228,000 from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$3,095,000 and the assets of the business type activities decreased approximately \$133,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds, considered to be major funds of the City.

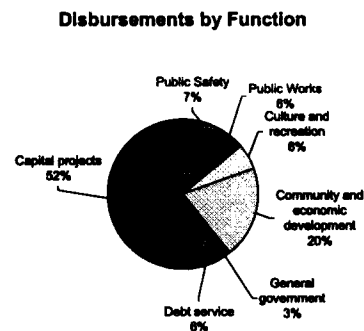
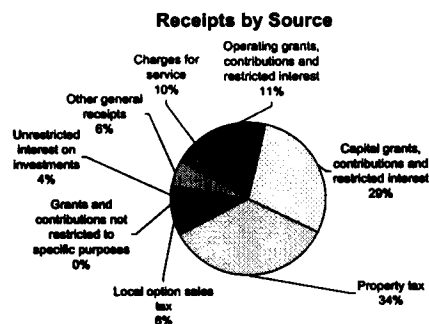


The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$6.628 million to \$3.533 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 400	\$ 80
Operating grants, contributions and restricted interest	450	424
Capital grants, contributions and restricted interest	1,206	222
General receipts:		
Property tax	1,464	1,376
Local option sales tax	271	296
Grants and contributions not restricted to specific purposes	16	65
Unrestricted interest on investments	156	149
Note proceeds	-	4,345
Other general receipts	232	195
Total receipts	<u>4,195</u>	<u>7,152</u>
<b>Disbursements:</b>		
Public safety	540	601
Public works	470	508
Culture and recreation	418	481
Community and economic development	1,425	616
General government	224	238
Debt service	453	138
Capital projects	3,774	569
Total disbursements	<u>7,304</u>	<u>3,151</u>
Change in cash basis net assets before transfers	(3,109)	4,001
Transfers, net	14	(4)
Change in cash basis net assets	(3,095)	3,997
Cash basis net assets beginning of year	6,628	2,631
Cash basis net assets end of year	<u>\$ 3,533</u>	<u>\$ 6,628</u>



The City's total receipts for governmental activities decreased 41.3%, or approximately \$2,957,000. The total cost of all programs and services increased approximately \$4,162,000, or 132.0%. The significant decrease in receipts was primarily the result of note proceeds received to fund the 2008 Street Project and Pool Project (CRC) in fiscal year 2008. The significant increase in costs was due to expenditures for the 2008 Street Project and the Pool Project (CRC).

The cost of all governmental activities this year was \$7.304 million compared to \$3.151 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$5.248 million because some of the cost was paid by those who directly benefited from the programs (\$400,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,656,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in 2009 from approximately \$726,000 to approximately \$2,056,000. The City paid for the remaining "public benefit" portion of governmental activities (\$5,248,000) with taxes (some of which could only be used for certain programs), bond proceeds in fiscal year 2008 and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 370	\$ 362
Sewer	489	520
Solid waste	136	145
Operating grants, contributions and restricted interest	5	-
Capital grants, contributions and restricted interest	-	24
General receipts:		
Unrestricted interest on investments	53	56
Bond Proceeds	797	-
Total receipts	<u>1,850</u>	<u>1,107</u>
Disbursements:		
Water	303	471
Sewer	1,536	466
Solid waste	130	138
Total disbursements	<u>1,969</u>	<u>1,075</u>
Change in cash basis net assets before transfers	(119)	32
Transfers, net	<u>(14)</u>	<u>4</u>
Change in cash basis net assets	(133)	36
Cash basis net assets beginning of year	<u>1,573</u>	<u>1,537</u>
Cash basis net assets end of year	<u>\$ 1,440</u>	<u>\$ 1,573</u>

Total business type activities receipts for the fiscal year were approximately \$1.850 million compared to approximately \$1.107 million last year. The cash balance decreased by approximately \$133,000 from the prior year. Total disbursements for the fiscal year increased by 83.2% to a total of approximately \$1,969,000; mostly due to calling of Sewer bonds. Revenue also increased by \$797,000 due to bond issuance.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osage completed the year, its governmental funds reported a combined fund balance of \$3,533,171, a decrease of \$3,095,679 below last year's total of \$6,628,850. The

following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Capital Project, 2008 Street Project cash balance decreased \$430,054 from the prior year to \$724,374. The decrease is due to an increase in the 2008 Street Project expenditures.
- The Capital Project, Pool Project (CRC) cash balance decreased \$2,792,880 from the prior year to \$209,815. This decrease was due to expenditures towards the pool project increasing approximately \$2.852 million.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased \$93,423 to \$794,916, due primarily to decreased expenses from FY 2008 for cleaning and painting interior and exterior of South Water Tower. This is done every 20 years.
- The Sewer Fund cash balance decreased \$223,017 to \$526,773, primarily due to calling the 1999 Sewer Revenue Bonds.
- The Solid Waste Fund cash balance decreased \$3,228 to \$118,445.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 18, 2009 and resulted in an increase in operating disbursements related to new equipment, fuel, Vision Iowa Grant pass thru, flood damage, IDED Grant for Industry, Commercial Loans, CRC/ Pool project and Sewer Bond refinancing. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$21,756 less than budgeted. This was primarily due to Iowa Department of Economic Development Grant for TOPS Plant Expansion not received by year-end.

Total disbursements were \$509,978 less than the amended budget. This was primarily due to Sewer Bond refinancing and delays in capital project work.

#### **DEBT ADMINISTRATION**

At June 30, 2009, the City had approximately \$5,312,000 in bonds and other long-term debt, compared to approximately \$6,000,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2009	2008
General obligation bonds	\$ -	\$ 390
General obligation notes	4,515	4,395
Revenue bonds	797	1,215
Total	<u>\$ 5,312</u>	<u>\$ 6,000</u>

Debt decreased as a result of scheduled payments. In addition the Sewer Revenue Bond 1999 series was called and a new bond was issued for a lower amount.

The City carries a general obligation bond rating of A assigned by Standard & Poor to the City's debt in 2009. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,515,000 is significantly below its constitutional debt limit of \$7.2 million.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Osage's elected and appointed officials consider many factors when setting the fiscal year 2009 budget, tax rates and fees. Property taxes and fees provide revenues necessary to supply services to the citizens of Osage.

Property tax asking for fiscal year 2010 will be \$30,860 more than fiscal year 2009, a 3.7% increase. The additional tax dollars will be used for increased insurance expense and General Fund activities. The property tax asking in each of the past 3 years has been lower than the previous 8 years. Tax collections annually are near 100%. The Tax Increment Finance District produces revenues used for Economic Development, and payment of Debt service for CRC/Pool project and the Public Safety Building. Water and Sewer base rates will each increase \$1 per month. Usage rates will remain unchanged.

2009 Capital Project actual expenditures were: 2008 Street Project \$757,330, CRC/Pool facility \$2,852,020 and Public Safety Building \$164,934. Projects budgeted in 2010 are Public Safety Building \$1,760,000, CRC/Pool completion \$1,500,000 and 2010 Crack and Seat Street Project \$20,000.

2009 was a year of economic tumult world-wide and a year of weather induced turmoil around the State of Iowa. Osage was fortunate to incur minimal flood-related expense. As of August 2009 all damages to Spring Park have been repaired and FEMA payments to date have covered 90% of the cost. Economically, all local employers remain in business although employee numbers have been modified. Home foreclosures locally are few in number.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

**City of Osage**

City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>			
Governmental activities:			
Public safety	\$ 539,751	18,866	54,146
Public works	469,604	348,478	287,241
Culture and recreation	418,306	31,754	53,089
Community and economic development	1,424,797	1,050	-
General government	223,844	-	-
Debt service	453,268	-	55,225
Capital projects	3,774,284	-	-
Total governmental activities	7,303,854	400,148	449,701
Business type activities:			
Water	303,070	370,268	-
Sewer	1,536,476	489,552	4,785
Solid waste	129,821	135,952	-
Total business type activities	1,969,367	995,772	4,785
Total	\$ 9,273,221	1,395,920	454,486
<b>General Receipts:</b>			
Property tax and other city tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Local option sales tax			
Grants and contributions not restricted to specific purposes			
Unrestricted interest on investments			
Bond Proceeds			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Streets			
Urban renewal purposes			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(458,048)	-	(458,048)
166,115	-	166,115
(333,463)	-	(333,463)
(226,622)	-	(226,622)
(223,844)	-	(223,844)
(398,043)	-	(398,043)
(3,774,284)	-	(3,774,284)
(5,248,189)	-	(5,248,189)
-	67,198	67,198
-	(1,042,139)	(1,042,139)
-	6,131	6,131
-	(968,810)	(968,810)
(5,248,189)	(968,810)	(6,216,999)
906,892	-	906,892
549,877	-	549,877
6,866	-	6,866
271,208	-	271,208
15,688	-	15,688
155,638	52,988	208,626
-	797,000	797,000
232,341	-	232,341
14,000	(14,000)	-
2,152,510	835,988	2,988,498
(3,095,679)	(132,822)	(3,228,501)
6,628,850	1,572,956	8,201,806
\$ 3,533,171	1,440,134	4,973,305
\$ 315,413	-	315,413
366,002	-	366,002
94,102	15,226	109,328
1,003,806	-	1,003,806
1,753,848	1,424,908	3,178,756
\$ 3,533,171	1,440,134	4,973,305

City of Osage

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2009

		Special Revenue		
		Road	Tax	
	General	Use	Increment	Debt
		Tax	Financing	Service
Receipts:				
Property tax	\$ 572,906	-	-	-
Tax increment financing	-	-	522,457	-
Other city tax	35,296	-	-	-
Licenses and permits	4,596	-	-	-
Use of money and property	41,769	-	9,908	3,037
Intergovernmental	1,380,450	287,241	-	-
Charges for service	42,653	-	-	-
Special assessments	21,489	-	-	6,866
Miscellaneous	88,502	-	-	55,225
Total receipts	<u>2,187,661</u>	<u>287,241</u>	<u>532,365</u>	<u>65,128</u>
Disbursements:				
Operating:				
Public safety	533,332	-	-	-
Public works	161,712	307,892	-	-
Culture and recreation	418,306	-	-	-
Community and economic development	1,278,105	-	76,762	-
General government	220,100	-	-	-
Debt service	-	-	-	453,268
Capital projects	-	-	-	-
Total disbursements	<u>2,611,555</u>	<u>307,892</u>	<u>76,762</u>	<u>453,268</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(423,894)</u>	<u>(20,651)</u>	<u>455,603</u>	<u>(388,140)</u>
Other financing sources (uses):				
Note Proceeds	-	-	-	-
Operating transfers in	400,447	-	-	390,838
Operating transfers out	(13,900)	-	(475,712)	-
Total other financing sources (uses)	<u>386,547</u>	<u>-</u>	<u>(475,712)</u>	<u>390,838</u>
Net change in cash balances	<u>(37,347)</u>	<u>(20,651)</u>	<u>(20,109)</u>	<u>2,698</u>
Cash balances beginning of year	<u>554,546</u>	<u>336,064</u>	<u>386,111</u>	<u>91,404</u>
Cash balances end of year	<u>\$ 517,199</u>	<u>315,413</u>	<u>366,002</u>	<u>94,102</u>
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	94,102
Unreserved:				
General fund	517,199	-	-	-
Special revenue funds	-	315,413	366,002	-
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	<u>\$ 517,199</u>	<u>315,413</u>	<u>366,002</u>	<u>94,102</u>

See notes to financial statements.



Exhibit B

Capital Projects	Nonmajor	Total
-	266,346	839,252
-	-	522,457
-	303,553	338,849
-	-	4,596
86,348	28,939	170,001
-	-	1,667,691
-	12,096	54,749
344,344	-	372,699
27,420	52,734	223,881
<u>458,112</u>	<u>663,668</u>	<u>4,194,175</u>
-	6,419	539,751
-	-	469,604
-	-	418,306
-	69,930	1,424,797
-	3,744	223,844
-	-	453,268
3,774,284	-	3,774,284
<u>3,774,284</u>	<u>80,093</u>	<u>7,303,854</u>
<u>(3,316,172)</u>	<u>583,575</u>	<u>(3,109,679)</u>
-	-	-
322,114	46,517	1,159,916
<u>(81,102)</u>	<u>(575,202)</u>	<u>(1,145,916)</u>
<u>241,012</u>	<u>(528,685)</u>	<u>14,000</u>
<u>(3,075,160)</u>	<u>54,890</u>	<u>(3,095,679)</u>
<u>4,311,809</u>	<u>948,916</u>	<u>6,628,850</u>
<u>1,236,649</u>	<u>1,003,806</u>	<u>3,533,171</u>
-	-	94,102
-	-	517,199
-	907,107	1,588,522
1,236,649	-	1,236,649
-	96,699	96,699
<u>1,236,649</u>	<u>1,003,806</u>	<u>3,533,171</u>

**City of Osage**

## City of Osage

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2009

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 370,268	\$ 489,552	\$ 135,952	\$ 995,772
Operating disbursements:				
Business type activities	303,070	256,289	129,821	689,180
Excess (deficiency) of operating receipts over (under) operating disbursements	67,198	233,263	6,131	306,592
Non-operating receipts (disbursements):				
Intergovernmental	-	4,785	-	4,785
Interest on investments	26,225	22,122	4,641	52,988
Debt Service	-	(1,280,187)	-	(1,280,187)
Net non-operating receipts (disbursements)	26,225	(1,253,280)	4,641	(1,222,414)
Excess (deficiency) of receipts over (under) disbursements	93,423	(1,020,017)	10,772	(915,822)
Other financing sources (uses):				
Bond Proceeds	-	797,000	-	797,000
Operating transfers out	-	-	(14,000)	(14,000)
Total other financings sources (uses)	-	797,000	(14,000)	783,000
Net change in cash balances	93,423	(223,017)	(3,228)	(132,822)
Cash balances beginning of year	701,493	749,790	121,673	1,572,956
Cash balances end of year	\$ 794,916	\$ 526,773	\$ 118,445	\$ 1,440,134
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	\$ 15,226		\$ 15,226
Unreserved	794,916	511,547	118,445	1,424,908
Total cash basis fund balances	\$ 794,916	\$ 526,773	\$ 118,445	\$ 1,440,134

See notes to financial statements.

**City of Osage**

City of Osage

Notes to Financial Statements

June 30, 2009

**(1) Summary of Significant Accounting Policies**

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Osage (the primary government) and exclude the City's component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

**Component Unit**

Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities and its operating budget are subject to the approval of the City Council.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mitchell County Assessor's Conference Board,

Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, Mitchell County Joint E911 Service Board, and Cedar River Recreation and Fine Arts Complex.

**B. Basis of Presentation**

**Government-wide Financial Statements** – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

**Fund Financial Statements** – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for projects related to the construction of capital assets including the 2008 Street Project and CRC pool project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

**C. Measurement Focus and Basis of Accounting**

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City of Osage funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$10,288</u>	<u>\$13,711</u>	<u>August 2019</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

### (3) Bonds and Notes Payable

Due to substantial decrease in interest rates from 4.10%-5.00% to 2.75%-3.15% the City called the 1999 Sewer Revenue Bonds with a balance of \$1,215,000 and refunded on May 1, 2009 the June 1, 2009 through 2014 maturities of the City's Sewer Revenue Bonds dated June 1, 1999 and replaced it with maturities of June 1, 2009 thru 2013. Providing for a net present value savings of \$37,540.

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	360,000	175,243	189,000	25,590	549,000	200,833
2011	370,000	162,255	197,000	18,364	567,000	180,619
2012	380,000	148,578	202,000	12,947	582,000	161,525
2013	355,000	134,060	209,000	6,584	564,000	140,644
2014	315,000	120,452	-	-	315,000	120,452
2015-2019	1,755,000	410,732	-	-	1,755,000	410,732
2020-2024	980,000	100,000	-	-	980,000	100,000
Total	4,515,000	1,251,320	797,000	63,485	5,312,000	1,314,805

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.



- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due. This provision was met as of June 30, 2009.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$64,670, \$61,338 and \$50,051, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$47,492
Compensatory	<u>4,299</u>
Total	<u>\$51,791</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 249,544
	Local Option Sales Tax	97,113
	Emergency Levy	17,393
	Parks and Recreation	12,076
	Hotel/Motel	8,228
	Library Building and Equipment	5,884
	Tax Increment Financing	1,091
	Forfeited Property	1,000
	Permanent:	
	Ingeborg Hallingby Memorial	2
	Enterprise:	
	Solid Waste	14,000
		<u>\$ 406,331</u>
Special Revenue:		
Hotel/Motel	Capital Projects	\$ 5,197
	General	3,816
		<u>\$ 9,013</u>
Commercial Loan	Tax Increment Financing	<u>\$ 27,420</u>
Jaws of Life	General	<u>\$ 200</u>
Capital Improvement Revolving	General	<u>\$ 4,000</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 288,111
	Local Option Sales Tax	54,242
	Capital Projects	48,485
		<u>\$ 390,838</u>
Capital Projects	Special Revenue:	
	Tax Increment Financing	\$ 186,510
	Local Option	135,604
		<u>\$ 322,114</u>
Total		<u>\$ 1,159,916</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$4,393 during the fiscal year ended June 30, 2009.

**(8) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Component Unit**

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 121,145
Billing services (bookkeeping)	18,660
Phone and internet	7,285
Miscellaneous	4,013
Total	<u>\$ 151,103</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$981,400
Donations in lieu of taxes	82,290
Bond principal and interest	55,225
Cable franchise fee	23,967
Miscellaneous	4,672
Total	<u>\$1,147,554</u>

**(10) Floyd-Mitchell-Chickasaw Solid Waste Management Agency**

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected or appointed representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2009, the City of Osage paid Jendro Sanitation \$125,904. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

**(11) Economic Development**

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$741 per month. The balance owed to the City at June 30, 2009 by OMI was \$108,887. The City also provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 1% interest payable at \$1,401 per month. The balance owed to the City at June 30, 2009 by A to Z Drying, Inc. was \$80,630.

Under the Main Street Loan Program, the City provided funds to small businesses along Main Street during fiscal years 2003-2006, in accordance with the provisions of Chapter 15A of the Code of Iowa in the form of eighteen loans with no interest. The balance of the loans at June 30, 2009 is \$27,273. Payments are to be made on January 10<sup>th</sup> for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 10<sup>th</sup> of the fifth year.

The Commercial Loan Program expanded on the Main Street Loan Program in 2006 to include small business off of Main Street and outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa. The Commercial Loan Program is currently made up of twenty-one loans with no interest. The balance of these loans at June 30, 2009 was \$143,434 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

**(12) Retiree Insurance**

City employees who retire before the age of 65 continue to be eligible to participate in the City's health insurance plan. However, these retirees are required to reimburse the City 100% of the premiums. For the fiscal year ending June 30, 2009 there was no employees covered after retirement.

**(13) Housing Revenue Bonds**

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$1,070,504 is outstanding at June 30, 2009. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

**(14) Leases**

The City leases tower space and property to U.S. Cellular, Osage Municipal Utilities and Alltel under three and five-year renewable operating leases. The City receives monthly payments of \$100, \$200 and \$594 from U.S. Cellular, Osage Municipal Utilities and Alltel, respectively. Under the terms of the current lease agreements, annual payments for each of the following five fiscal years are as follows:

2010	\$10,724
2011	10,724
2012	10,324
2013	2,400
2014	2,400

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage will receive a payment of \$4,000 in fiscal 2010.

Total rent income from leases for fiscal year ending June 30, 2009 was \$10,364.

Also, the City leases the parking lot property from Mayer's Digging Company at the soccer field. The City pays \$1 per year for the property renewable annually.

**(15) Commitments**

As of June 30, 2009, the City had the following commitments with respect to the following projects:

	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
CRC Project	\$ 197,833	February 2010
Public Safety Building	<u>2,193,000</u>	July 2010
Total	<u>\$ 2,390,833</u>	

**(16) USDA Loan Guarantee**

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare was current on their payments as of June 30, 2009.

**(17) Partial Self Funded Insurance**

The City will pay up to \$500 for a single and up to \$1,000 for a family for each employee's deductible on his or her health insurance plan. As of June 30, 2009 the city had ten employees on the partial self funded insurance plan with a maximum liability of \$9,000 and expenditures of \$1,860 leaving a remaining liability of \$7,140 thru the end of December 2009.

**(18) Subsequent Events**

On July 1, 2008, the City issued the following debt with respect to the following projects.

	<u>Amount</u>
Public Safety Building	\$2,010,000

City of Osage

**Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds**

**Required Supplementary Information**

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 839,252	-	-
Tax increment financing	522,457	-	-
Other city tax	338,849	-	-
Licenses and permits	4,596	-	-
Use of money and property	170,001	52,988	2
Intergovernmental	1,667,691	4,785	-
Charges for service	54,749	995,772	-
Special assessments	372,699	-	-
Miscellaneous	223,881	-	3,540
<b>Total receipts</b>	<u>4,194,175</u>	<u>1,053,545</u>	<u>3,542</u>
<b>Disbursements:</b>			
Public safety	539,751	-	-
Public works	469,604	-	-
Culture and recreation	418,306	-	-
Community and economic development	1,424,797	-	-
General government	223,844	-	-
Debt service	453,268	-	-
Capital projects	3,774,284	-	-
Business type activities	-	1,969,367	-
<b>Total disbursements</b>	<u>7,303,854</u>	<u>1,969,367</u>	<u>-</u>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<u>(3,109,679)</u>	<u>(915,822)</u>	<u>3,542</u>
<b>Other financing sources (uses), net</b>	<u>14,000</u>	<u>783,000</u>	<u>(2)</u>
<b>Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses</b>	<u>(3,095,679)</u>	<u>(132,822)</u>	<u>3,540</u>
<b>Balances beginning of year</b>	<u>6,628,850</u>	<u>1,572,956</u>	<u>93,159</u>
<b>Balances end of year</b>	<u><u>\$ 3,533,171</u></u>	<u><u>1,440,134</u></u>	<u><u>96,699</u></u>

See accompanying independent auditors' report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
839,252	833,575	833,575	5,677
522,457	494,000	520,000	2,457
338,849	327,245	328,245	10,604
4,596	6,600	6,600	(2,004)
222,987	140,460	212,960	10,027
1,672,476	1,216,350	1,778,350	(105,874)
1,050,521	1,062,098	1,001,458	49,063
372,699	287,396	373,801	(1,102)
220,341	165,295	210,945	9,396
<u>5,244,178</u>	<u>4,533,019</u>	<u>5,265,934</u>	<u>(21,756)</u>
539,751	568,912	586,772	47,021
469,604	442,666	508,916	39,312
418,306	1,219,591	1,649,591	1,231,285
1,424,797	156,390	295,990	(1,128,807)
223,844	234,484	235,484	11,640
453,268	619,499	453,499	231
3,774,284	2,920,000	3,976,000	201,716
1,969,367	1,050,247	2,076,947	107,580
<u>9,273,221</u>	<u>7,211,789</u>	<u>9,783,199</u>	<u>509,978</u>
(4,029,043)	(2,678,770)	(4,517,265)	488,222
<u>797,002</u>	<u>2,625,700</u>	<u>835,240</u>	<u>(38,238)</u>
(3,232,041)	(53,070)	(3,682,025)	449,984
<u>8,108,647</u>	<u>3,565,113</u>	<u>8,018,649</u>	<u>89,998</u>
<u>4,876,606</u>	<u>3,512,043</u>	<u>4,336,624</u>	<u>539,982</u>

**Required Supplementary Information**



**City of Osage**

**Notes to Required Supplementary Information – Budgetary Reporting**

**June 30, 2009**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,571,410. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development function.

City of Osage

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2009

	Local					Special
	Option					
	Sales	Forfeited	Employee	Emergency	Hotel/Motel	Jaws
	Tax	Property	Benefits	Levy		of
						Life
Receipts:						
Property tax	\$ -	-	248,991	17,355	-	-
Other city tax	271,208	-	553	39	31,753	-
Use of money and property	5,295	143	-	-	376	201
Charges for service	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	-	-	827	400
Total receipts	<u>276,503</u>	<u>143</u>	<u>249,544</u>	<u>17,394</u>	<u>32,956</u>	<u>601</u>
Disbursements:						
Operating:						
Public safety	-	2,672	-	-	2,000	243
Community and economic development	-	-	-	-	19,475	-
General government	-	-	-	-	3,744	-
Capital projects	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>2,672</u>	<u>-</u>	<u>-</u>	<u>25,219</u>	<u>243</u>
Excess (deficiency) of receipts over (under) disbursements	<u>276,503</u>	<u>(2,529)</u>	<u>249,544</u>	<u>17,394</u>	<u>7,737</u>	<u>358</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	9,013	200
Operating transfers out	(286,958)	-	(249,544)	(17,394)	(8,228)	-
Total other financing sources (uses)	<u>(286,958)</u>	<u>-</u>	<u>(249,544)</u>	<u>(17,394)</u>	<u>785</u>	<u>200</u>
Net change in cash balances	(10,455)	(2,529)	-	-	8,522	558
Cash balances beginning of year	<u>191,999</u>	<u>7,826</u>	<u>-</u>	<u>-</u>	<u>13,821</u>	<u>7,729</u>
Cash balances end of year	<u>\$ 181,544</u>	<u>5,297</u>	<u>-</u>	<u>-</u>	<u>22,343</u>	<u>8,287</u>
<b>Cash Basis Fund Balances</b>						
Unreserved:						
Special revenue funds	\$ 181,544	5,297	-	-	22,343	8,287
Permanent funds	-	-	-	-	-	-
Total cash basis fund balances	<u>\$ 181,544</u>	<u>5,297</u>	<u>-</u>	<u>-</u>	<u>22,343</u>	<u>8,287</u>

See accompanying independent auditors' report.

Schedule 1

Revenue					Permanent		Total
Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Capital Improvement Revolving	DARE	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	
-	-	-	-	-	-	-	266,346
-	-	-	-	-	-	-	303,553
1,189	1,720	7,827	11,954	232	-	2	28,939
9,846	-	-	-	450	1,800	-	12,096
-	-	-	-	-	-	-	-
7,683	39,792	-	-	2,292	1,740	-	52,734
18,718	41,512	7,827	11,954	2,974	3,540	2	663,668
-	-	-	-	1,504	-	-	6,419
-	50,455	-	-	-	-	-	69,930
-	-	-	-	-	-	-	3,744
-	-	-	-	-	-	-	-
-	50,455	-	-	1,504	-	-	80,093
18,718	(8,943)	7,827	11,954	1,470	3,540	2	583,575
-	27,420	5,884	4,000	-	-	-	46,517
(12,076)	-	-	-	(1,000)	-	(2)	(575,202)
(12,076)	27,420	5,884	4,000	(1,000)	-	(2)	(528,685)
6,642	18,477	13,711	15,954	470	3,540	-	54,890
44,123	63,975	147,064	369,962	9,258	92,859	300	948,916
50,765	82,452	160,775	385,916	9,728	96,399	300	1,003,806
50,765	82,452	160,775	385,916	9,728	-	-	907,107
-	-	-	-	-	96,399	300	96,699
50,765	82,452	160,775	385,916	9,728	96,399	300	1,003,806

City of Osage  
Schedule of Indebtedness  
Year ended June 30, 2009

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General obligation bonds:</b>			
1999 Street Improvement	06/01/99	3.70-4.45%	\$ 605,000
<b>General obligation notes:</b>			
2002 Street Improvement and Telecom	07/01/02	2.35-4.40%	\$ 630,000
2003 Urban Renewal	12/09/03	3.95%	140,000
2008 Swimming Pool and Urban Renewal	06/01/08	4.00%	3,000,000
2008 Street Improvement	06/01/08	2.75-4.00%	1,345,000
Total			
<b>Revenue bonds:</b>			
1999 Wastewater Treatment Plant	06/01/99	3.70-4.70%	\$ 2,480,000
2009 Sewer Revenue Refunding Capital Loan Notes	04/01/09	2.75-3.15%	\$ 797,000
Total			

See accompanying independent auditors' report.

**Schedule 2**

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>1,335</u>	<u>-</u>
360,000	-	70,000	290,000	14,965	-
50,000	-	20,000	30,000	1,778	-
3,000,000	-	150,000	2,850,000	116,333	-
<u>1,345,000</u>	<u>-</u>	<u>-</u>	<u>1,345,000</u>	<u>47,985</u>	<u>-</u>
<u>4,755,000</u>	<u>-</u>	<u>240,000</u>	<u>4,515,000</u>	<u>181,061</u>	<u>-</u>
1,215,000	-	1,215,000	-	50,602	-
<u>-</u>	<u>797,000</u>	<u>-</u>	<u>797,000</u>	<u>-</u>	<u>-</u>
<u>1,215,000</u>	<u>797,000</u>	<u>1,215,000</u>	<u>797,000</u>	<u>50,602</u>	<u>-</u>

City of Osage  
Bond and Note Maturities  
June 30, 2009

Year Ending June 30,	2002 Street Improvement and Telecom		2003 Urban Renewal		General Obligation Notes 2008 Swimming Pool and Urban Renewal	
	Issued Jul 1, 2002		Issued Dec 9, 2003		Issued Jun 1, 2008	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2010	4.05 %	\$ 70,000	3.95 %	\$ 20,000	4.00 %	\$ 155,000
2011	4.20	80,000	3.95	10,000	4.00	160,000
2012	4.30	85,000		-	4.00	170,000
2013	4.40	55,000		-	4.00	175,000
2014		-		-	4.00	185,000
2015		-		-	4.00	190,000
2016		-		-	4.00	195,000
2017		-		-	4.00	205,000
2018		-		-	4.00	215,000
2019		-		-	4.00	220,000
2020		-		-	4.00	230,000
2021		-		-	4.00	240,000
2022		-		-	4.00	250,000
2023		-		-	4.00	260,000
2024		-		-		-
Total		<u>\$ 290,000</u>		<u>\$ 30,000</u>		<u>\$ 2,850,000</u>

Year Ending June 30,	Revenue Bond	
	2009 Sewer Revenue Refunding Capital Loan Notes	
	Issued Apr 3, 2009	
	Interest Rates	Amount
2010	2.75 %	\$ 189,000
2011	2.75	197,000
2012	3.15	202,000
2013	3.15	<u>209,000</u>
Total		<u>\$ 797,000</u>

See accompanying independent auditors' report.

Schedule 3

<u>2008 Street Improvement</u>		
<u>Issued Jun 1, 2008</u>		
<u>Interest</u>		
<u>Rates</u>	<u>Amount</u>	<u>Total</u>
2.75 % \$	115,000	360,000
3.10	120,000	370,000
3.25	125,000	380,000
3.35	125,000	355,000
3.50	130,000	315,000
3.65	135,000	325,000
3.80	140,000	335,000
3.90	145,000	350,000
4.00	150,000	365,000
4.00	160,000	380,000
	-	230,000
	-	240,000
	-	250,000
	-	260,000
	-	-
	<u>\$ 1,345,000</u>	<u>4,515,000</u>

City of Osage

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Six Years

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Receipts:</b>			
Property tax	\$ 839,252	\$ 816,163	986,053
Tax increment financing	522,457	504,941	474,680
Other city tax	338,849	351,569	281,002
Licenses and permits	4,596	8,414	6,424
Use of money and property	170,001	163,946	130,831
Intergovernmental	1,667,691	636,485	405,980
Charges for service	54,749	61,844	62,590
Special assessments	372,699	77,316	302,380
Miscellaneous	223,881	188,078	153,387
<b>Total</b>	<u><u>\$ 4,194,175</u></u>	<u><u>\$ 2,808,756</u></u>	<u><u>2,803,327</u></u>
<b>Disbursements:</b>			
Operating:			
Public safety	\$ 539,751	\$ 601,197	439,691
Public works	469,604	508,426	399,694
Culture and recreation	418,306	481,000	422,427
Community and economic development	1,424,797	616,383	368,506
General government	223,844	238,329	217,936
Debt service	453,268	138,241	539,631
Capital projects	3,774,284	569,203	285,069
<b>Total</b>	<u><u>\$ 7,303,854</u></u>	<u><u>\$ 3,152,779</u></u>	<u><u>2,672,954</u></u>

See accompanying independent auditors' report.



Schedule 4

<u>2006</u>	<u>2005</u>	<u>2004</u>
948,134	924,410	929,385
433,742	400,831	372,459
245,649	222,034	235,857
6,245	7,033	7,100
111,443	61,027	37,216
432,009	645,194	450,225
62,099	50,849	61,464
60,104	198,032	95,373
182,660	191,797	203,630
<u>2,482,085</u>	<u>2,701,207</u>	<u>2,392,709</u>
451,189	414,667	422,064
351,946	356,906	458,405
413,221	413,562	380,765
125,515	100,988	452,292
257,076	209,121	190,628
431,218	462,534	1,447,522
580,557	193,032	404,607
<u>2,610,722</u>	<u>2,150,810</u>	<u>3,756,283</u>

**City of Osage**

Independent Auditors' Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated July 31, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Osage's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Osage's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Osage's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Osage's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Osage's financial statements that is more than inconsequential will not be prevented or detected by the City of Osage's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Osage's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-09 and II-B-09 are material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osage's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Osage's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Osage's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
July 31, 2009

City of Osage

Schedule of Findings

Year ended June 30, 2009

**Part I: Summary of the Independent Auditors' Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the primary government financial statements, including two material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

**City of Osage**

City of Osage

Schedule of Findings

Year ended June 30, 2009

**Part II: Findings Related to the Primary Government Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

- II-A-09     Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-09     Library Petty Cash – It was noted that the library does not maintain their petty cash as an impressed balance, further daily monies collected are commingled with the petty cash fund rather than kept separate.

Recommendations – The library should set up an impressed balance petty cash fund to pay for miscellaneous items. They should also set up a separate system to account and track daily sales of items and deposit the collected sales daily.

Response – We will consider this.

Conclusion – Response accepted.

- II-C-09     Sale of assets – It was noted that the city does not require written approval for the scrapping or sale of fixed assets.

Recommendation – The City should require written approval before the scrapping or sale of fixed assets.

Response – We will consider this.

Conclusion – Response accepted.

City of Osage

Schedule of Findings

Year ended June 30, 2009

II-D-09 Fire protection – It was noted that the City does not have adequate fire protection in the form of smoke detectors and/or non-water base fire suppression systems.

Recommendation – The City should place smoke detectors in all appropriate locations.

Response – We will do so.

Conclusion – Response accepted.



City of Osage

Schedule of Findings

Year ended June 30, 2009

**Part III: Other Findings Related to Statutory Reporting:**

III-A-09 **Certified Budget** – Disbursements during the year ended June 30, 2009 exceed the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

**Recommendation** – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Response** – In this instance the expenditure was mistakenly budgeted under the Culture and recreation function. In the future the budget will be amended, if applicable.

**Conclusion** – Response accepted.

III-B-09 **Questionable Disbursements** – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

III-C-09 **Travel Expense** – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-09 **Business Transactions** – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating	Maintenance, parts and labor	\$ 3,970
Cathy Penney, City Clerk, Wife of Mark Penney, contractor	Lawn work	360
Steven Cooper, Mayor, Owner of Coopers Auto	Parts and labor	39
Don Breon, Council Member	Umpired Little League games	24

In accordance with Chapter 362.5(10) of the Code of Iowa, the first amount appears to represent a conflict of interest. The amount is over \$1,500 and bids were not taken. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$1,500.

City of Osage

Schedule of Findings

Year ended June 30, 2009

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

III-E-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.

III-H-09 Revenue Bonds – The City has complied with the revenue bonds resolutions.

III-I-09 Financial Condition – There were no funds with deficit balances at June 30, 2009.